



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
TRIMBLE COUNTY CLERK**

Calendar Year 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Ray Clem, County Judge/Executive
Honorable Jerry L. Powell, Trimble County Clerk
Members of the Trimble County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Trimble County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Ray Clem, County Judge/Executive
Honorable Jerry L. Powell, Trimble County Clerk
Members of the Trimble County Fiscal Court

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Have Entered Into A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated September 30, 1999, on our consideration of the County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 30, 1999

TRIMBLE COUNTY
JERRY L. POWELL, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

State Fees For Services	\$	3,747	
Fiscal Court			8,187
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	143,241	
Usage Tax		484,190	
Tangible Personal Property Tax		379,299	
Licenses-			
Fish and Game		10,352	
Marriage		3,726	
Occupational		94	
Deed Transfer Tax		14,503	
Delinquent Tax		9,415	1,044,820
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	8,130	
Real Estate Mortgages		12,711	
Chattel Mortgages and Financing Statements		27,118	
Powers of Attorney		216	
All Other Recordings		13,109	
Charges for Other Services-			
Candidate Filing Fees		2,720	
Copywork		1,650	
Miscellaneous		390	66,044
Interest Earned			1,305
Gross Receipts (Carried Forward)	\$		1,124,103

TRIMBLE COUNTY
 JERRY L. POWELL, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Gross Receipts (Brought Forward) \$ 1,124,103

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 108,385	
Usage Tax	468,568	
Tangible Personal Property Tax	147,565	

Licenses-

Fish and Game	10,241	
Delinquent Tax	1,193	
Legal Process Tax	9,605	
Candidate Filing Fees	<u>1,350</u>	\$ 746,907

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 24,254	
Delinquent Tax	691	
Deed Transfer Tax	13,768	
Occupational Licenses	<u>76</u>	38,789

Payments to Other Districts:

Tangible Personal Property Tax	\$ 192,190	
Delinquent Tax	<u>4,573</u>	196,763

Payments to Sheriff 430

Payments to County Attorney 1,499

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies Salaries	\$ 55,648	
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Contracted Services-

Fish and Game	480	
Advertising	38	
Printing and Binding	1,157	

Materials and Supplies-

Office Supplies	926	
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TRIMBLE COUNTY
 JERRY L. POWELL, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
 (Continued)

Other Charges-			
Conventions and Travel	\$	1,688	
Dues		350	
Refunds		1,756	
Postage		3,284	
Telephone Warranty and Maintenance		480	
Capital Outlay-			
Office Equipment		6,970	
Computer Software and Maintenance		10,193	\$ 82,970
Total Disbursements			<u>\$ 1,067,358</u>
Net Receipts			\$ 56,745
Less: Statutory Maximum			<u>48,726</u>
Excess Fees			\$ 8,019
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for Calendar Year 1998			\$ 4,419
Payments to County Treasurer- February 16, 1999	\$	1,607	
September 30, 1999		<u>2,812</u>	<u>4,419</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

TRIMBLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.22 percent.

TRIMBLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the County Clerk.

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COMMENT AND RECOMMENDATION

TRIMBLE COUNTY
JERRY L. POWELL, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 1998

STATE LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The County Clerk had a bank balance of \$115,257; FDIC insurance of \$100,000; and securities pledged of \$50,000 as of April 7, 1998. Even though the County Clerk obtained pledged securities of \$50,000, the pledge was not evidenced by a written agreement. We recommend the County Clerk enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

"There isn't a KRS that says the bank board or loan committee has to sign the agreement. Having worked in a bank for 15 years as a bank officer, an officer of the bank can and does obligate the bank and does not need the board of directors or loan committee to approve such action. This is another way to try and put down public officials that are doing their jobs. Mr. Hatchett should know this, having a banking background."

Auditor's Reply:

The Trimble County Clerk needs to refer to Section 1823(e) of Title 12 of the United States Code Annotated, cited as 12 U.S.C.A. §1823(e), which is a federal statute enacted by the United States Congress, not a state statute enacted by the General Assembly of the Commonwealth of Kentucky. According to federal law, a financial institution that has its deposits insured by the Federal Deposit Insurance Corporation (FDIC) must comply with federal statutes as well as Kentucky statutes. As a depositor of taxpayer funds in a bank that has its deposits insured by the FDIC, Mr. Powell, as Trimble County Clerk, is required to ensure that these public funds in his care are safe and secure. If this bank were to fail or become insolvent, the FDIC would take over the failed bank and assume control of the bank's assets, which assets would include Mr. Powell's deposits of public funds. 12 U.S.C.A. §1823(e) states that before the FDIC will recognize Mr. Powell's claim to those funds, he must have in place a written security agreement that is (a) in writing, (b) approved by the board of directors of the bank or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the bank. According to a letter from FDIC legal counsel to the Auditor, dated March 10, 1998, this written security agreement "should be signed by the institution [the bank] and the secured party (in this case the public depositor) [Mr. Powell, Trimble County Clerk]." If such a security agreement between Mr. Powell and the bank is not in place, and the bank fails, the FDIC would take control of the bank and its assets, and not recognize Mr. Powell's claim to the public funds on deposit in the bank. If this were to occur, Mr. Powell would be personally responsible for reimbursing the taxpayers in an amount equal to the public funds lost as a result of Mr. Powell's failure to secure the deposit with a written security agreement.

TRIMBLE COUNTY
JERRY L. POWELL, COUNTY CLERK
COMMENT AND RECOMMENDATION
Calendar Year 1998
(Continued)

Auditor's Reply: (Continued)

Furthermore, Mr. Powell has apparently mis-read the Auditor's Comment, which does not state that the bank's board or loan committee has to sign the agreement, or that a bank officer cannot sign the agreement. The Comment simply states that the agreement should be signed by both parties, which would be Mr. Powell as Trimble County Clerk, and any bank official authorized to sign for the bank. The bank's board or loan committee has to approve the agreement and reflect that approval in its official minutes; it does not have to sign the agreement.

Accordingly, the Auditor's Comment stands as written. Mr. Powell should implement the Auditor's Recommendation immediately, and, in accordance with federal law, enter into a written security agreement with the bank in which the Trimble County Clerk has deposited public funds, in order to secure those funds from the risk of loss.

PRIOR YEAR

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The County Clerk had a bank balance of \$115,257; FDIC insurance of \$100,000; and securities pledged of \$50,000 as of April 7, 1998. Even though the County Clerk obtained pledged securities of \$50,000 the pledge was not evidenced by a written agreement. We recommend the County Clerk enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

Management has no response.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Ray Clem, County Judge/Executive
Honorable Jerry L. Powell, Trimble County Clerk
Members of the Trimble County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Trimble County Clerk as of December 31, 1998, and have issued our report thereon dated September 30, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Trimble County Clerk's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Trimble County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Ray Clem, County Judge/Executive
Honorable Jerry L. Powell, Trimble County Clerk
Members of the Trimble County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 30, 1999

